

COUNTY OF SANTA CRUZ

SINGLE AUDIT REPORT

JUNE 30, 2007

COUNTY OF SANTA CRUZ

Single Audit Report
For the Year Ended June 30, 2007

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BARTIG, BASLER & RAY, LLP
A GALLINA LLP COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Board of Supervisors
of the County of Santa Cruz, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Santa Cruz, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered County of Santa Cruz's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Santa Cruz's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Santa Cruz's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs (07-FS-01) to be a significant deficiency in internal control over financial reporting.

Board of Supervisors
County of Santa Cruz

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiency described above, we consider item 07-FS-1 to be a material weakness.

Compliance and Other Matters

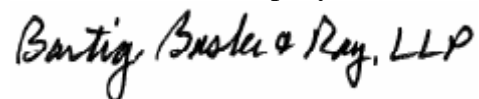
As part of obtaining reasonable assurance about whether the County of Santa Cruz's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County of Santa Cruz in a separate letter dated December 14, 2007.

The County of Santa Cruz's response to the findings identified in our audit are described in the accompanying schedule of findings and questions costs. We did not audit the County of Santa Cruz's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, LLP
A Gallina LLP Company



Roseville, California
December 14, 2007



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Board of Supervisors
of the County of Santa Cruz, California

Compliance

We have audited the compliance of the County of Santa Cruz, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The County of Santa Cruz's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulation, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of Santa Cruz's management. Our responsibility is to express an opinion on the County of Santa Cruz's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of Santa Cruz's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County of Santa Cruz's compliance with those requirements.

As described in items 07-SA-2, 07-SA-3, and 07-SA-4, in the accompanying schedule of findings and questioned costs, the County of Santa Cruz did not comply with requirements regarding eligibility and special tests that are applicable to its Temporary Assistance for Needy Families Program and eligibility tests for its Medical Assistance Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Board of Supervisors
County of Santa Cruz

In our opinion, except for the noncompliance described in the preceding paragraph, County of Santa Cruz complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the County of Santa Cruz is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-SA-1, 07-SA-2, 07-SA-3, and 07-SA-4 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-SA-2, 07-SA-3, and 07-SA-4 to be material weaknesses.

The County of Santa Cruz's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response and, accordingly, we express no opinion on it.

Board of Supervisors
County of Santa Cruz

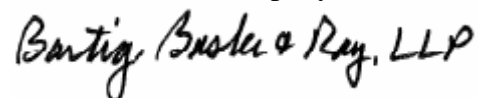
Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Santa Cruz, California, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The County's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's response, and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, the Board of Supervisors, others within the County of Santa Cruz, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

BARTIG, BASLER & RAY, LLP
A Gallina LLP Company



Roseville, California
December 14, 2007

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U. S. Department of Agriculture</u>			
Passed through California Department of Social Services:			
Food Stamps	10.551 *	--	\$ 14,460,783
Food Stamp Administration	10.561 *	--	2,868,758
Subtotal Pass-Through			<u>17,329,541</u>
Passed through California Department of Health Services:			
Food Stamp Administration - Nutrition Network	10.561 *	03-75524	<u>198,672</u>
Passed through State Department of Education:			
School Breakfast Program	10.553	--	<u>32,410</u>
Total U.S. Department of Agriculture			<u>\$ 17,560,623</u>
<u>U.S. Department of Commerce</u>			
Direct Program:			
Coastal Impact Assistance Program	11.419	NA170Z2075	<u>86,933</u>
Total U.S. Department of Commerce			<u>\$ 86,933</u>
<u>U. S. Department of Housing and Urban Development</u>			
Direct Programs:			
Supportive Housing Program	14.235	--	141,478
Supportive Housing Program - Match	14.235	CA01SB50801	219,717
Subtotal CFDA 14.235			<u>361,195</u>
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	CALHB0262-03	<u>693,079</u>
Subtotal Direct			<u>1,054,274</u>
Passed through California Department of Health Services:			
Housing Opportunities for Persons with AIDS	14.241	04-35586	61,982
Housing Opportunities for Persons with AIDS	14.241	04-35623	71,453
Housing Opportunities for Persons with AIDS	14.241	05-45921	24,981
Subtotal Pass-Through			<u>158,416</u>
Total U.S. Department of Housing & Urban Development			<u>\$ 1,212,690</u>

* Major Program

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U. S. Department of Justice</u>			
Direct Programs:			
State Criminal Alien Assistance Program	16.606	--	\$ 259,982
Cannabis Eradication Program	16.579	S7A4107044	15,232
Bryne Memorial Justice Grant (JAG)	16.579	2005-DJ-BX-1169	37,418
Bryne Memorial Justice Grant (JAG)	16.579	2006-DJ-BX-0336	51,157
Juvenile Drug Court	16.585	2003-DC-BX-0031	118,938
Subtotal Direct			<u>482,727</u>
Passed through Governor's Office of Emergency Services:			
Marijuana Suppression Program	16.579	MS06120440	145,065
Anti-Drug Enforcement Program	16.738	DC06170440	155,317
Victim Witness Assistance Program	16.575	VW06250440	85,314
Violence Against Women Vertical Prosecution	16.588	VV06020440	105,000
Subtotal Pass-Through			<u>490,696</u>
Passed through California Department of Corrections and Rehabilitation:			
Juvenile Accountability Incentive Block Grants	16.523	CSA 122-06	18,839
Title II Formula Grant: Enhanced DMC-TAP Project	16.540	CSA 340-06	33,262
Title II Formula Grant: GirlZpace: Meeting the needs of Juvenile Female Offenders	16.540	CSA 340-06	11,635
Title V Grant	16.548	CSA 401-06	284,166
Subtotal Pass-Through			<u>347,902</u>
Passed through Santa Cruz County Narcotic Enforcement Team and San Mateo County:			
High Intensity Drug Trafficking Area	16.000	--	4,365
Total U.S. Department of Justice			<u>\$ 1,325,690</u>
<u>U. S. Department of Labor</u>			
Passed through California Department of Employment Development:			
WIA Adult Programs:			
Title I - A Adult Formula	17.258	--	892,345
X-Ray Tech: Title I 15% Adult Special Project (642)	17.258	--	22,908
WIA Youth Activities Programs:			
Title I Youth Formula	17.259	--	1,264,355

* Major Program

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U. S. Department of Labor</u> (continued)			
Passed through California Department of Employment Development (continued):			
WIA Youth Activities:			
Title I-D Dislocated Worker Formula	17.260	--	\$ 881,511
Title I Dislocated Worker - Formula Insufficiency	17.260	--	42,508
Title I Dislocated Worker - Augmentation	17.260	--	1,257
Title I Rapid Response	17.260	--	176,990
Title I Rapid Response Special Project - Birds-Eye	17.260	--	411,506
Rapid Response for RA&PGM - Business Retention Survey	17.260	--	191,056
Rapid Response for RA&PGM - Enhanced Business Services	17.260	--	116,811
X-Ray Tech: Title I Rapid Response (524)	17.260	--	2,629
Other WIA Programs:			
Title I 15% Youth Special Project - Foster Youth	17.259	--	1,567
15% Incentive Awards (0405 and 0506 Performance)	17.267	--	7,498
Subtotal			<u>4,012,941</u>
Passed through County of Merced:			
Title I Adult, 15% Special Project (Medical Assistant Focus Group)	17.258	--	<u>5,000</u>
Total U.S. Department of Labor			<u>\$ 4,017,941</u>
<u>U. S. Department of Transportation</u>			
Passed through California Department of Transportation:			
Highway Planning and Construction	20.205	ER-4446-(001)	87,905
Highway Planning and Construction	20.205	STPLER-5936(049)	4,427
Highway Planning and Construction	20.205	BPMP-5936-(070)	7,456
Highway Planning and Construction	20.205	BRLO-5936(042)	1,607,823
Highway Planning and Construction	20.205	BRLO-5936(061)	7,633
Highway Planning and Construction	20.205	BRLKS-5936(048)	45,604
Highway Planning and Construction	20.205	BRLOZE-5936(031)	9,657
Highway Planning and Construction	20.205	BRLO-5936(027)	11,685
Highway Planning and Construction	20.205	RPSTPL-5936(033)	<u>176,646</u>
Total U.S. Department of Transportation			<u>\$ 1,958,836</u>

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U.S. Department of Environmental Protection Agency</u>			
Passed through California State Water Resources Control Board:			
Beach Monitoring and Notification Program Implementation Grants	66.472	04-35989	\$ 25,000
Total U.S. Department of Environmental Protection Agency			\$ 25,000
<u>U.S. Department of Education</u>			
California Department of Education, Santa Cruz County Office of Education:			
Special Education Grant, Individuals with Disabilities Education Act	84.027	--	578,673
Passed through California Department of Alcohol and Drug Programs:			
Safe & Drug Free Schools and Communities State Grants	84.186	SDF03-06	189,049
Total U.S. Department of Education			\$ 767,722
<u>U.S. Election Assistance Commission</u>			
Passed through California Secretary of State:			
Help America Vote Act	90.401	05GR301044	948,280
Total U.S. Election Assistance Commission			\$ 948,280
<u>U. S. Department of Health & Human Services</u>			
Direct Programs:			
Health Services for the Homeless	93.224	5H80CS00048-06	1,050,464
Motivational Approach to Success (MAS)	93.243	1 H79 TI15584-01	232,866
Early Intervention Services	93.918	H76HA00153	502,192
Subtotal Direct			1,785,522

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
U. S. Department of Health & Human Services (continued)			
Passed through California Department of Social Services:			
Temporary Assistance for Needy Families:			
Temporary Assistance for Needy Families - Assistance	93.558 *	--	\$ 5,371,041
Temporary Assistance for Needy Families - CalWorks Program and Staff Development	93.558 *	--	7,857,830
Temporary Assistance for Needy Families - Child Care	93.558 *	--	3,892,638
Temporary Assistance for Needy Families - EA - ER, ESC, CR	93.558 *	--	2,391,819
Temporary Assistance for Needy Families - FC - EA Assistance	93.558 *	--	161,894
Subtotal CFDA 93.558			<u>19,675,222</u>
Foster Care - Title IV-E:			
Foster Care - Title IV-E Social Services Assistance	93.658	--	1,461,048
Foster Care - Title IV-E AB2129	93.658	--	867
Foster Care - Title IV-E Child Welfare Services	93.658	--	2,095,355
Foster Care - Title IV-E Family Preservation	93.658	--	28,586
Foster Care - Title IV-E Foster Family Licensing	93.658	--	131,367
Foster Care - Title IV-E Options For Recovery	93.658	--	70,300
Foster Care - Title IV-E Foster Care - Administration	93.658	--	439,703
Foster Care - Title IV-E Kinship & Foster Care Emergency Fund	93.658	--	9,697
Foster Care - Title IV-E - Probation	93.658	--	4,343,605
Child Welfare Services Outcome Improvement Project	93.658	--	304,806
Subtotal CFDA 93.658			<u>8,885,334</u>
Adoption Assistance:			
Adoption Assistance - Assistance	93.659 *	--	2,057,236
Adoption Assistance - Social Services	93.659 *	--	342,913
Adoption Assistance - Other Public Assistance	93.659 *	--	98,692
Subtotal CFDA 93.659			<u>2,498,841</u>
Social Services Block Grant:			
Child Welfare Services - Title XX	93.667	--	206,572
Foster Family Licensing - Title XX	93.667	--	21,838
Subtotal CFDA 93.667			<u>228,410</u>

* Major Program

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
U. S. Department of Health & Human Services (continued)			
Passed through California Department of Social Services (continued):			
Abandoned Infants Program	93.551	--	\$ 487,883
Promoting Safe and Stable Families - PSSF	93.556	--	304,838
Child Welfare Services - Title IV-B	93.645	--	166,228
Independent Living Program	93.674	--	207,604
Subtotal			<u>1,166,553</u>
Subtotal Pass-Through			<u>32,454,360</u>
Passed through California Department of Child Support Services:			
Child Support Enforcement	93.563 *	--	<u>4,792,007</u>
Passed through California Department of Alcohol and Drug Programs:			
State Incentive Grant	93.959	--	245,808
Block Grants for Prevention and Treatment of Substance Abuse (SAPT)	93.959	--	1,816,136
Subtotal Pass-Through			<u>2,061,944</u>
Passed through California Secretary of State:			
Election Assistance for Individuals with Disabilities	93.617	05GREPID44	<u>29,138</u>
Passed through California Department of Aging:			
Medical Assistance Program - MSSP	93.778 *	--	<u>428,500</u>
Passed through California Department of Health Services:			
Medical Assistance Program - CWS Title XIX	93.778 *	--	1,462,053
Adult Protective Services	93.778 *	--	455,936
Medical Assistance Program - IHSS Title XIX	93.778 *	--	1,620,705
Medical Assistance Program - Medi-Cal 50%	93.778 *	--	5,669,892
Medical Assistance Program - Medi-Cal SAVE 100%	93.778 *	--	45,996
Medical Assistance Program - Public Authority	93.778 *	--	613,300
Medical Assistance Program - Stable Family Preservation - Title XIX	93.778 *	--	11,600
Subtotal - CFDA 93.778			<u>9,879,482</u>

* Major Program

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U. S. Department of Health & Human Services (continued)</u>			
Passed through California Department of Health Services (continued):			
Medical Assistance Program (continued):			
Adolescent Family Life Planning Grant	93.994	2006-44	\$ 59,778
Maternal and Child Health Services Block Grant to the States	93.994	2006-44	96,212
Subtotal - CFDA 93.994			<u>155,990</u>
National Bioterrorism Hospital Preparedness	93.003	--	106,455
Immunization Assistance	93.268	06-55202	71,935
Preparedness and Response to Bioterrorism	93.283	--	248,092
Ryan White Care Act Title II	93.917	03-75931	72,267
HIV Prevention Activities Health Department Based	93.940	04-35382	40,000
Subtotal			<u>538,749</u>
Subtotal Pass-Through			<u>17,885,810</u>
Passed through the California Department of Mental Health:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	--	37,767
State Children's Insurance Program	93.767	--	19,405
Medicaid Administrative Costs	93.778 *	--	47,380
Medical Assistance Program	93.778 *	--	1,249,790
Block Grant for Community Mental Health Services (SAMHSA)	93.958	--	117,262
Subtotal Pass-Through			<u>1,471,604</u>
Total U.S. Department of Health & Human Services			<u>\$ 53,597,296</u>
<u>U.S. Social Security Administration</u>			
Direct Program:			
Social Security - Research and Demonstration:			
HOPE Grant	96.007	18-H-40025-9	48,234
Total U.S. Social Security Administration			<u>\$ 48,234</u>

* Major Program

COUNTY OF SANTA CRUZ

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Disbursements Expenditures</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Emergency Preparedness & Response	97.044	--	\$ 124,080
Passed through Governor's Office of Emergency Services:			
State Domestic Preparedness Equipment Support Program:			
State Homeland Security Grant FY03	97.004	2003-167	14,389
Homeland Security Grant Program FY04	97.004	2004-045	193,837
Homeland Security Grant Program FY05	97.004	2005-15	440,832
Homeland Security Grant Program FY06	97.004	2006-71	159,909
Subtotal CFDA 97.004			<u>808,967</u>
Public Assistance Grants:			
Disaster Grants - Public Assistance	97.036	087-00000	1,918,724
Disaster Grants - Public Assistance	97.036	087-91052	55,076
Subtotal CFDA 97.036			<u>1,973,800</u>
Passed through Governor's Office of Emergency Services:			
Flood Mitigation Assistance Program FY04	97.029	2004-1002	162,114
Hazard Mitigation Grant	97.039	FEMA-1044-DR-CA	110,070
Emergency Management Performance Grant 2006	97.042	2006-GR-008	75,134
Subtotal			<u>347,318</u>
Total U.S. Department of Homeland Security			<u>\$ 3,254,165</u>
Total Expenditures of Federal Awards			<u><u>\$ 84,803,410</u></u>

COUNTY OF SANTA CRUZ

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2007

Note 1: **Reporting Entity**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the County of Santa Cruz. The County of Santa Cruz's reporting entity is defined in Note 1 to the County's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the schedule.

Note 2: **Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Entity and is presented based on Generally Accepted Accounting Principles (GAAP). The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Note 3: **Relationship to Financial Statements**

The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the County's financial statements. Federal award revenues are reported principally in the County's financial statements as intergovernmental revenues in the General and Special Revenue funds.

Note 4: **Subrecipients**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards, the County of Santa Cruz provided federal awards to subrecipients as follows:

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Amount</u>
16.540	Title II GirlZpace	\$ 7,992
16.548	Title V Grant	157,113
16.579	Marijuana Suppression Grant	26,160
93.150	Projects for Assistance in Transition from Homelessness	37,767
93.243	Motivational Approach to Success	148,619
93.563	County of San Benito Child Support	1,126,592
93.958	Substance Abuse and Mental Health Services (SAMHSA)	<u>73,421</u>
	Total	<u>\$ 1,577,664</u>

COUNTY OF SANTA CRUZ

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Note 5: **Loans with Continuing Compliance Requirement**

Outstanding federally-funded program loans, with a continuing compliance requirement, carried balances as of June 30, 2007 as follows:

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Amount Outstanding</u>
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	\$ 311,395

The loans under the Lead-Based Paint Hazard Control in Privately-Owned Housing grant are forgivable after three years as long as the owner has not sold the property.

Note 6: **Program Clusters**

Federal programs, which must be audited together as a program cluster, include the following:

<u>Federal CFDA</u>	<u>Program Title</u>	<u>Federal Expenditures</u>
<u>Food Stamp Cluster:</u>		
10.551	Food Stamps	\$ 14,460,783
10.561	Food Stamp Administration	2,868,758
10.561	Food Stamp Administration – Nutrition Network	<u>198,672</u>
	Total	<u>\$ 17,528,213</u>

WIA Cluster

17.258	WIA – Adult	\$ 915,253
17.259	WIA – Youth	1,265,922
17.260	WIA – Dislocated Workers	1,824,268
17.267	15% Incentive Awards (0405 and 0506 Performance)	<u>7,498</u>
	Total	<u>\$ 4,012,941</u>

COUNTY OF SANTA CRUZ

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Note 7: **Total Federal Awards Expended by CFDA Number**

When there is more than one program under a single CFDA number, the Schedule of Expenditures of Federal Awards presents the totals of all programs under the one CFDA number. Occasionally, however, this total could not be conveniently displayed because all programs under one CFDA number were not contiguous. When this occurred, this total is not shown in the Schedule, but instead is provided below:

<u>CFDA No.</u>	<u>Total Federal Expenditures</u>
16.579	\$ 248,872
93.778	11,605,152

Note 8: **Department of Aging Federal/State Share**

The California Department of Aging (CDA) requires agencies who receive CDA funding to display state-funded expenditures discretely along with federal expenditures. The County expended the following state and federal amounts under these grants:

<u>CFDA</u>	<u>Contract No.</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
93.778	R556	\$ 428,500	\$ 428,500

Note 9: **Pass-Through Entities' Identifying Number**

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the County determined that no identifying number is assigned for the program or the County was unable to obtain an identifying number from the pass-through entity.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 1

Financial Statements

Summary of Auditor's Results

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal controls over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards

- | | |
|---|-------------|
| 1. Internal control over major programs: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified not considered to be material weaknesses? | Yes |
| 2. Type of auditor's report issued on compliance for major programs: | |
| Temporary Assistance for Needy Families | Qualified |
| Medical Assistance Program | Qualified |
| All Other Major Programs | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in accordance with Circular OMB A-133, Section 510(a)? | Yes |

4. Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.551	Food Stamps
10.561	Food Stamp Administration
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.659	Adoptions Assistance
93.778	Medical Assistance Program

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 1 (continued)

- | | |
|---|--------------|
| 5. Dollar Threshold used to distinguish between Type A and Type B programs? | \$ 2,544,102 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133, Section 530? | No |

Section 2

Financial Statement Findings

Accounts Receivable	Finding 07-FS-1
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Section 3

Federal Award Findings and Questioned Costs

CFDA 93.558	Finding 07-SA-1
CFDA 93.558	Finding 07-SA-2
CFDA 93.558	Finding 07-SA-3
CFDA 93.778	Finding 07-SA-4

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-FS-1	<p data-bbox="516 390 1073 457"><i>Accounts Receivable</i> <i>Reporting Requirement: Material weakness</i></p> <p data-bbox="516 495 618 529"><u>Criteria</u></p> <p data-bbox="516 562 1442 697">During its year-end closing process, the County should establish and enforce policies and procedures to ensure that year-end accruals are properly identified, reviewed and recorded for all account balances, including revenues and receivables.</p> <p data-bbox="516 735 646 768"><u>Condition</u></p> <p data-bbox="516 802 1442 936">During the audit, we noted a few significant receivables that were recorded at the end of the year despite the revenue recognition criteria not being met. The amount of the audit adjustment was approximately \$4 million.</p> <p data-bbox="516 974 597 1008"><u>Cause</u></p> <p data-bbox="516 1041 1442 1146">During the year-end closing process, the County failed to sufficiently review the significant revenue accruals being proposed by the departments.</p> <p data-bbox="516 1184 768 1218"><u>Effect of Condition</u></p> <p data-bbox="516 1251 1442 1356">By not reviewing all significant year-end revenue accruals to ensure that all eligibility requirements have been met, the County could materially overstate its receivables and revenue.</p> <p data-bbox="516 1394 743 1428"><u>Recommendation</u></p> <p data-bbox="516 1461 1442 1596">We recommend that the Auditor-Controller's Office modify its year-end closing process to include the review of all significant receivables proposed by departments to ensure all revenue recognition requirements are met before recording the accruals in the general ledger.</p> <p data-bbox="516 1633 813 1667"><u>Corrective Action Plan</u></p> <p data-bbox="516 1701 1442 1869">We concur with this recommendation. This error was the result of two departments incorrectly stating their AR. The Auditor-Controller's Office will modify our year end closing process to include the review of all significant receivables proposed by departments. The review will be performed by the Accounting Manager or Sr. Accountant-Auditor.</p>

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 07-FS-1 (continued)	<u>Corrective Action Plan</u> (continued) In addition, we will emphasize this area in our written year end close procedures that are provided to the departments. The implementation of this corrective action plan will be in place by May 2008 when the instructions are issued to departments. The contact person for this project is Accounting Manager Pam Silbaugh: telephone number (831) 454-2679.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-SA-1	<i>Federal Grantor: U.S. Department of Health and Human Services</i>
Temporary Assistance for Needy Families CFDA 93.558	<i>Pass-Through Entity: State Department of Social Services</i>
Award No. n/a Year: 2006/2007	<i>Compliance Requirement: Eligibility</i> <i>Reporting Requirement: Significant Deficiency and Material Noncompliance in Relation to a Compliance Supplement Audit Objective</i>

Criteria

The California State Department of Social Services in administrating the California State Plan for Temporary Assistance of Needy Families (TANF) adopted regulations for the administration of the State Plan and published these regulations in the *California Department of Social Services Manual of Policies and Procedures*. These regulations require that an individual applying for TANF provide a birth certificate or other enumerated, alternate documents to show birth, age, and citizenship.

Surrogacy Condition

We tested eligibility in twenty-four cases. In one case the case file did not contain a birth certificate or other enumerated, alternate documents under the *California Department of Social Services Manual of Policies and Procedures*, to show birth, age, and citizenship for the applicant receiving aid on the case.

Questioned Costs

Undetermined.

Perspective

It appears the County neglected to make the individual applying for Federal assistance provide a document proving the individual is a citizen of the United States prior to providing them assistance from Federal funds. Taking into account the amount of assistance payments made for cases that were missing birth certificates in comparison to the total payments tested there was about a 1% error rate.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-SA-1 (continued)	<u>Effect of the Condition</u>
Temporary Assistance for Needy Families CFDA 93.558	Birth certificates or acceptable alternative documents provide vital and reliable information about TANF applicants. Without such documents to prove applicant's birth, citizenship and age, fraud in the number of individuals in a family, critical age distinctions, and possibly citizenship may be difficult to detect, resulting in individuals being granted TANF benefits to which they are not entitled under federal law.
Award No. n/a Year: 2006/2007	<u>Recommendation</u>
	We recommend that the County review the requirement of obtaining the required legal documents to establish an individual's citizenship prior to awarding Federal Temporary Assistance for Needy Families (TANF) eligibility with County personnel who initiate TANF eligibility applications.
	<u>Corrective Action Plan</u>
	1. Review with the CalWORKs Trainer to ensure that training is provided on citizenship verification.
	This was confirmed via email by Division Director Claudine Wildman with CalWORKs Staff Development Trainer Rebecca Carter on 12/19/07. Ms. Carter provided a soft copy of the training module.
	2. Division Directors to send email to Benefit Services and CareerWORKs Division staff regarding audit findings on citizenship verification. A copy or link to the training module will be included. Email to be sent by 1/7/08.
	3. Division Directors to send email to Benefit Services and CareerWORKs Division Eligibility Supervisors and Program Managers directing them to review citizenship verification requirements at a unit meeting. Eligibility Supervisors must provide the date it was reviewed to their respective Program Managers. Email to be sent by 1/7/08. Unit meeting to be held by 2/1/08.
	4. Review and revise as necessary any related business process. Review and revisions to be completed by 2/1/08.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 07-SA-1 (continued)	<u>Corrective Action Plan</u> (continued)
Temporary Assistance for Needy Families CFDA 93.558	The contact person for this corrective action plan is Sue Gilcrest, Division Director Social Services. Her telephone number is 831-454-5400.
Award No. n/a Year: 2006/2007	

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-SA-2	<i>Federal Grantor: U.S. Department of Health and Human Services</i> <i>Pass-Through Entity: State Department of Social Services</i> <i>Compliance Requirement: Eligibility</i> <i>Reporting Requirement: Material Weakness and Material Noncompliance in Relation to a Compliance Supplement Audit Objective</i>
Temporary Assistance for Needy Families CFDA 93.558	
Award No. n/a Year: 2006/2007	<u>Criteria</u> Any family that includes an adult, minor child head of household or a spouse of the head of household who has received assistance under any State program funded by federal TANF funds for sixty months (whether or not consecutive) is ineligible for additional federally funded TANF assistance. Certain exemptions apply in counting the months on Federal TANF assistance. The County’s uses the WDTIP system to track this sixty-month, time-on-aid limit. When cases near the TANF sixty-month, time-on-aid limit, the WDTIP “clock” must be reviewed to determine whether or not any adjustments for exempt/nonexempt months is warranted. The case must be set to transfer to state funding at the end of the TANF sixty-months, time-on-aid limit.
	<u>Condition</u> We tested twenty-four cases and noted that for four cases the WDTIP tracking for the TANF sixty-month, time-on-aid limit was not current. The required review of the WDTIP clock had not been performed.
	<u>Questioned Costs</u> None.
	<u>Perspective</u> We do not believe any further information would provide proper perspective.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-SA-2 (continued)	<u>Effect of Condition</u>
Temporary Assistance for Needy Families CFDA 93.558	Not completing the sixty-month, time-on-aid tracking can result in individuals receiving federal TANF assistance for more than sixty months in violation of federal law.
Award No. n/a Year: 2006/2007	<u>Recommendation</u>
	We recommend that the County review its current system of ensuring that the sixty-month, time-on-aid limit is not exceeded and determine whether or not training, a review process and/or a revision to the system is warranted.
	<u>Corrective Action Plan</u>
	1. The current time on aid process has already been reviewed by a work group composed of the CalWORKs staff development trainer, eligibility supervisors from both Benefit Services and CareerWorks, and management analyst. Because problems with the accuracy of information generated from the CalWIN and WDTIP interface, the group is recommending a refresher training for staff and instructions on manual time on aid tracking using the State required form.
	This was verbally confirmed by Division Director Sue Gilchrist on 12/18/07.
	2. The Division Director will approve a training request to Staff Development for a time on aid refresher training for both Benefit Services and CareerWorks staff.
	Request was approved and forwarded to Staff Development on 12/16/07.
	3. Time on aid refresher training will be scheduled at the earliest possible date. Training will be mandatory and the Division Directors for Benefit Services and CareerWorks will send email to eligibility staff informing them of the audit finding and the importance of the training.
	Email and training to be completed by 4/01/08.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 07-SA-2 (continued)	<u>Corrective Action Plan</u> (continued)
Temporary Assistance for Needy Families CFDA 93.558	The contact person for this corrective action plan is Sue Gilcrest, Division Director Social Services. Her telephone number is 831-454-5400.
Award No. n/a Year: 2006/2007	

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-SA-3	<i>Federal Grantor: U.S. Department of Health and Human Services</i>
Temporary Assistance for Needy Families CFDA 93.558	<i>Pass-Through Entity: State Department of Social Services</i>
Award No. n/a Year: 2006/2007	<i>Compliance Requirement: Eligibility/Special Tests (IEVS)</i> <i>Reporting Requirement: Material Weakness and Material Noncompliance in Relation to a Compliance Supplement Audit Objective</i>
	<u>Criteria</u>

As required by § 1137 of the Social Security Act, income and benefit information from the Income Eligibility and Verification System (IEVS) database must be requested and used when making eligibility determinations. The County must review and compare the information obtained from IEVS against information contained in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services.

Condition

We tested twenty-four cases and noted that four cases did not have current IEVS documents for all active individuals on the cases, three cases had no IEVS documents at all and two cases had current IEVS but they had not been signed and dated by the Eligibility Worker.

Questioned Costs

Undetermined.

Perspective

It appears that the County has neglected this compliance requirement in about 37.5% of it cases.

Effect of Condition

The IEVS system is an elaborate, federally-mandated system which compiles government information for the purpose of tracking federal program eligibility data. Not requesting and using IEVS in eligibility determination can result in individuals receiving benefits to which they are not entitled.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 07-SA-3 (continued) Temporary Assistance for Needy Families CFDA 93.558 Award No. n/a Year: 2006/2007	<p><u>Recommendation</u></p> <p>We recommend that the Department review this omission to request, review, and compare the IEVS to information in the case record. We recommend that the Department attempt to determine why the current system of controls failed to prevent these exceptions and that the Department establish and communicate a policy designed to ensure that IEVS information is requested, received, and reviewed and that this review is documented in each case.</p> <p><u>Corrective Action Plan</u></p> <ol style="list-style-type: none">1. Staff Development to review in future CalWORKs trainings how to process IEVS reports specific to the CalWORKs program. Next training is not yet scheduled.2. Division Directors to send email to Benefit Services and CareerWORKs Division staff regarding audit findings and the processing of IEVS reports. Email to be sent by 1/7/08.3. Division Directors to send email to Benefit Services and CareerWORKs Division Eligibility Supervisors and Program Managers directing them to cover processing of IEVS reports at a unit meeting. Eligibility Supervisors must provide the date it was reviewed to their respective Program Managers. Email to be sent by 1/7/08. Unit meeting to be held by 2/1/08.4. Review and revise as necessary IEVS business process. Review and revisions to be completed by 2/1/08. <p>The contact person for this corrective action plan is Sue Gilchrest, Division Director Social Services. Her telephone number is 831-454-5400.</p>

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Finding/Program	Findings/Noncompliance
Finding 07-SA-4	<i>Federal Grantor: U.S. Department of Health and Human Services</i> <i>Pass-Through Entity: State Departments of Social Services and Health Services</i> <i>Compliance Requirement: Eligibility (IEVS)</i> <i>Reporting Requirement: Material Weakness and Material Noncompliance in Relation to a Compliance Supplement Audit Objective</i>
Medical Assistance Program CFDA 93.778	
Award No. n/a Year: 2006/2007	

Criteria

As required by § 1137 of the Social Security Act, income and benefit information from the Income Eligibility and Verification System (IEVS) database must be requested and used when making eligibility determinations. The County must review and compare the information obtained from IEVS against information contained in the case record to determine whether it affects the individual’s eligibility or level of assistance, benefits or services.

Condition

We tested twenty-four cases and noted that one case had current IEVS but they had not been signed and dated by the Eligibility Worker and seven cases did not have any IEVS documents at all.

Questioned Costs

Undetermined.

Perspective

It appears that the County has neglected this compliance requirement in about 33.34% of its cases.

Effect of Condition

The IEVS system is an elaborate, federally-mandated system which compiles government information for the purpose of tracking federal program eligibility data. Not requesting and using IEVS in eligibility determination can result in individuals receiving benefits to which they are not entitled.

COUNTY OF SANTA CRUZ

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 07-SA-4 (continued)	<u>Recommendation</u>
Medical Assistance Program CFDA 93.778	We recommend that the Department review this omission to request, review, and compare the IEVS to information in the case record. We recommend that the Department attempt to determine why the current system of controls failed to prevent these exceptions and that the Department establish and communicate a policy designed to ensure that IEVS information is requested, received, and reviewed and that this review is documented in each case.
Award No. n/a Year: 2006/2007	<u>Corrective Action Plan</u>
	1. Review with the Medi-Cal Trainer to ensure that training is provided on how to process IEVS reports. This was verbally confirmed by Division Director Claudine Wildman with Medi-Cal Staff Development Trainer Kimberly Peterson on 12/18/07.
	2. Division Director to send email to Benefit Services Division staff regarding audit findings and the processing of IEVS reports. Email to be sent by 1/7/08.
	3. Division Director to send email to Eligibility Supervisors and Program managers directing them to cover processing of IEVS reports at a unit meeting. Eligibility Supervisors must provide the date it was reviewed to their respective Program Managers. Email to be sent by 1/7/08. Unit meeting to be held by 2/1/08.
	4. Review and revise as necessary IEVS business process. Review and revisions to be completed by 2/1/08.
	The contact person for this corrective action plan is Claudine Wildman, Division Director Social Services. Her telephone number is 831-763-8307.

COUNTY OF SANTA CRUZ

Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2007

<u>Finding/Program</u>	<u>Findings/Noncompliance</u>
Finding 06-1	<u>Recommendation</u>
CFDA 93.778 Medical Assistance Program Award No. n/a Year: 2005/2006	We recommend that the Department review these errors in inputting income information into the CalWin eligibility software and determine if a change in the internal control system could prevent future errors of this type. If it is determined that further or modified internal controls should be implemented, we recommend such controls be put into place at the earliest date possible. <u>Status</u> Corrected.
Finding 06-2	<u>Recommendation</u>
CFDA 93.659 Adoption Assistance Award No. n/a Year: 2005/2006	We recommend that the County instruct its staff to check for the AAP-4 for all federal Adoption Assistance cases. When any case is identified which does not have an AAP-4, we recommend that a supervisor review the case file to make sure that the aid code for the case is correct. <u>Status</u> Corrected.
Finding 06-3	<u>Recommendation</u>
CFDA 93.563 Child Support Enforcement Award No. n/a Year: 2005/2006	The Child Support Department currently has policies and procedures in effect to ensure that time frames for establishment of paternity and support obligations are met. We recommend that the Child Support Department review these omissions to comply with the timeframes for establishing paternity and support orders, described above, and determine why the operation of the internal controls failed. Federal statutes mandate stringent timelines which must be met. <u>Status</u> Implemented.